

**SETTLEMENT AGREEMENT AND RELEASE BETWEEN  
ORANGE COUNTY WATER DISTRICT AND  
AMERICAN ELECTRONICS, INC.**

This Settlement Agreement and Release (the "Agreement") is entered into among the following parties:

1. American Electronics, Inc. ("AEI"), a California corporation; and
2. Orange County Water District ("OCWD").

AEI and OCWD are sometimes individually referred to herein as "Settling Party" or collectively referred to herein as the "Settling Parties."

**RECITALS**

This Agreement is entered into by and between the Settling Parties based on the following, facts, circumstances and understandings, which are not only recitals, but are also an integral part of this Agreement:

WHEREAS, on December 17, 2004, OCWD filed a Complaint in the Orange County Superior Court, and subsequently a First Amended Complaint ("Complaint") on April 11, 2005, against numerous defendants, including AEI, alleging that the defendants' activities contributed to the contamination of the groundwater basin and aquifers from which OCWD obtains its water supply.

WHEREAS, AEI denies any and all liability or responsibility for the claims alleged by OCWD in its Complaint.

WHEREAS, a substantial dispute exists among the Settling Parties regarding their respective liabilities and obligations arising from OCWD's claims.

WHEREAS, the Settling Parties wish to avoid the burden, costs, and uncertainties of litigation.

WHEREAS, by and through this Agreement, the Settling Parties seek to fully and finally settle any and all disputes arising from or related to the Action, the Matters Addressed in this Agreement, the allegations of OCWD contained in its Complaint, and any other disputes related to the contamination, investigation, and remediation of the groundwater basin and aquifers from which OCWD obtains its water supply.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements contained herein, and intending to be legally bound, the Settling Parties hereby agree as follows:

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1. DEFINITIONS. Whenever the following capitalized terms are used in this Agreement, the meanings defined in this Section 1 apply.

a. "Action" means the civil action pending in the Superior Court of California for the County of Orange entitled *Orange County Water District v. Northrop Corporation*, et al., Case No. 04CC00715, including all direct claims and any cross-claims, counter-claims, and third-party claims.

b. "AEI" means American Electronics, Inc.

c. "Agreement" means this Settlement Agreement and Release.

d. "Claims" means any and all claims, counterclaims, cross-claims, actions, demands, causes of action, rights, liabilities, and obligations of every kind and nature, whether known or unknown, past, present or future, suspected or unsuspected, liquidated or unliquidated, relating to the Action, the Property, or the Site, including, without limitation, claims for:

i. any and all past, present, or future fees, attorneys' fees, costs, expenses, and liabilities incurred or which may be incurred for testing, investigating, remediating, removing, neutralizing, detoxifying, monitoring, containing, cleaning up, treating or in any way responding to hazardous substances in soil, groundwater, surface water, equipment or any other items that now exist, in the past existed, or that in the future exist at, on, under, or emanating from the Site or the Property, including without limitation, responding to and defending against any past, present or future regulatory agency request, directive or order relating thereto;

ii. any and all past, present, or future damages of any kind, including compensatory and punitive, or other legal, statutory, or equitable relief, incurred by OCWD, based in whole or in part upon, arising out of, resulting from or in any way connected with hazardous substances released at the Site or the Property;

iii. any and all past, present or future fees, attorneys' fees, costs, expenses and liabilities arising from, sought in, or relating to the Action or the settlement of the Action, including the Good Faith Motion.

e. "Complaint" means OCWD's First Amended Complaint for Damages and Other Relief (VOC Contamination): (1) Orange County Water District Act; (2) California Superfund Act; (3) Negligence; (4) Nuisance; (5) Trespass; and (6) Declaratory Relief, filed in the Superior Court of California for the County of Orange on April 11, 2005.

f. "Court" means the Superior Court of California for the County of Orange.

g. "Effective Date" means:

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- i. the date upon which the Court in this Action issues an order granting the Good Faith Motion contemplated in Section 3.a. of this Agreement; or
- ii. in the event the Court in this Action denies the Good Faith Motion, the date upon which the Court dismisses AEI from the Action with prejudice as provided for in Section 3.b. of this Agreement.

h. "Good Faith Motion" means the motion seeking a determination that the Settling Parties entered into this Agreement in good faith pursuant to California Code of Civil Procedure sections 877 and 877.6 as further described in Section 3 (Good Faith Motion and Dismissal of the Action With Prejudice) of this Agreement.

i. "Matters Addressed" in this Agreement shall include, but not be limited to, resolution of any and all Claims as defined in Section 1.d. of this Agreement.

j. "OCWD" means the Orange County Water District.

k. "Property" means real property that AEI formerly owned and on which it conducted its operations located at 1600 East Valencia Drive in Fullerton, California.

l. "Settlement Proceeds" means the four hundred thousand dollars (\$400,000) to be paid by AEI to OCWD in accordance with the procedures outlined in Section 2 of this Agreement.

m. "Settling Parties" means OCWD and AEI.

n. "Settling Party" means one of the Setting Parties.

o. "Site" means the Forebay Volatile Organic Compound Groundwater Cleanup Project located in the cities of Placentia, Fullerton and Anaheim as partially depicted on the map attached hereto as Exhibit "A," as well as any ground water contaminated by the Site, which moves from the area depicted in Exhibit "A" to any other location.

2. SETTLEMENT PAYMENT. AEI shall pay four hundred thousand dollars (\$400,000) to OCWD as follows:

a. Within ten (10) business days of the date upon which the Court in this Action issues an order granting the Good Faith Motion contemplated in Section 3.a. of this Agreement; or

b. In the event the Court denies the Good Faith Motion and AEI notifies OCWD in accordance with Section 19 of this Agreement that AEI elects to nonetheless proceed with this settlement as provided for under Section 3.b. of this Agreement, payment shall be made within thirty (30) calendar days from the date the Court dismisses AEI from the Action with prejudice as contemplated in Section 3.b. of this Agreement.

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c. The Settlement Proceeds shall be paid by wire transfer payable to "Miller, Axline & Sawyer Client Trust Account."

d. In the event that a writ, an appeal, or any other legal challenge results in a reversal of the Court's order granting the Good Faith Motion, or any other order invalidates this Agreement or the Court's order granting the Good Faith Motion, OCWD will return in full the Settlement Proceeds to AEI within ten (10) business days of receiving notification by AEI, pursuant to Paragraph 19 of this Agreement, requesting return of the Settlement Proceeds. Should AEI exercise this option, all obligations to perform under the terms of this Agreement will be extinguished and the Parties will execute any documents needed to restore the Parties to their pre-settlement status in the Action, including a stipulated order setting aside any dismissal of AEI.

3. GOOD FAITH MOTION AND DISMISSAL OF THE ACTION WITH PREJUDICE.

a. Promptly upon execution of this Agreement, the Settling Parties shall prepare, file, and serve a motion seeking a determination from the Court that the settlement embodied herein is "in good faith" within the meaning of California Code of Civil Procedure sections 877 and 877.6 (the "Good Faith Motion").

b. In the event the Court denies the Good Faith Motion, AEI has thirty (30) calendar days to notify OCWD in accordance with Section 19 of this Agreement that AEI elects to nonetheless proceed with this settlement. Within five (5) calendar days after AEI notifies OCWD of AEI's election to proceed with this settlement, OCWD shall dismiss AEI from the Action with prejudice pursuant to California Code of Civil Procedure 581. The Settling Parties agree to bear their own costs, expenses, and attorneys' fees with respect to the procedures outlined in this Section 3.b.

4. MUTUAL RELEASE.

a. Pursuant to, and as consideration for the full performance of all of the terms and conditions of this Agreement, AEI and all of its present and former subsidiaries, affiliated and parent corporations and entities, predecessors, successors, and all of their collective and respective past, present, and future agents, successors, officers, directors, shareholders, attorneys, employees, insurers, and assigns, hereby release and forever discharge OCWD for itself and its predecessors, successors, assigns, affiliates, and insurers, and for all of their respective agents, employees, and attorneys, of and from any and all Claims, except for claims relating to any breach of this Agreement. It is understood and agreed by the Settling Parties that the releases granted in this Section 4.a. are not intended and do not release claims which do or may exist against non-settling persons, including, but not limited to, other parties in the Action.

b. Pursuant to, and as consideration for the full performance of all of the terms and conditions of this Agreement, OCWD for itself and its predecessors,

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successors, assigns, affiliates, and insurers, and for all of their respective agents, employees, and attorneys, hereby releases and forever discharges AEL and all of its present and former subsidiaries, affiliated and parent corporations and entities, predecessors, successors, and all of their collective and respective past, present, and future agents, successors, officers, directors, shareholders, attorneys, employees, insurers, and assigns, as well as any past, present or future owners, lessees, sub-lessees, tenants, occupants, or operators of the Property, whether known or unknown, of and from any and all Claims, except for claims relating to any breach of this Agreement. Except as specifically provided by this Section 4.b., it is understood and agreed by the Settling Parties that the releases granted in this Section 4.b. are not intended and do not release claims which do or may exist against non-settling persons, including, but not limited to, other parties in the Action.

5. UNCERTAINTY OF CIRCUMSTANCES.

Each Settling Party acknowledges that it has made such investigation of the facts pertaining to this Agreement and all matters contained herein as it deems necessary, desirable or appropriate. Each Settling Party acknowledges that there is a possibility that, subsequent to the execution of this Agreement, it may incur, suffer, or sustain any injuries, losses, damages, costs, attorneys' fees, expenses, or any of these, which are in some way caused by or connected with the Matters Released and referred to above, which are unknown and unanticipated at the time this Agreement is signed, or which are not presently capable of being ascertained, and further that there is a risk that such damages as are known may become more serious than the Settling Parties now expect or anticipate. Nevertheless, each Settling Party acknowledges that this Agreement has been negotiated and agreed upon in light of that realization and hereby expressly waives any rights it may have in such unsuspected claims.

6. WAIVER OF RIGHTS (CALIFORNIA CIVIL CODE § 1542).

In entering into this Agreement, each Settling Party has had the benefit of legal counsel and has been advised or, understands, and knowingly and specifically waives its rights under California Civil Code section 1542, which provides as follows:

CERTAIN CLAIMS NOT AFFECTED BY GENERAL  
RELEASE—A general release does not extend to claims which the  
creditor does not know or suspect to exist in his favor at the time of  
executing the release, which is known by him, must have  
materially affected his settlement with debtor.

Each Settling Party hereto further waives all rights under any similar law in any state or territory of the United States.

7. CONTROLLING LAW. It is understood and agreed that this Agreement is entered into in the State of California. It is agreed that this Agreement shall be governed by and construed in accordance with the laws of the United States and of the State of California as if

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applied to transactions entered into and to be performed wholly within California between California residents. No Settling Party shall argue or assert that any law other than California law applies to the governance or construction of this Agreement.

8. NO ASSIGNMENT. Each Settling Party represents, warrants and agrees that it has not assigned, transferred, conveyed, encumbered or in any manner otherwise disposed of all or any portion of the claims, actions, causes of action, suits, potential causes of action, demands, disputes, rights, obligations, or interests of any nature or kind whatsoever covered by this Agreement, whether before or after they occurred, regardless of whether they have occurred as of the date of this Agreement.

9. ENTIRE AGREEMENT. This Agreement constitutes the entire Agreement between the Settling Parties relating to this subject matter and its terms are contractual, not mere recitals. Except as specifically provided in this Agreement, this Agreement supersedes all prior or simultaneous representations, discussions, negotiations, and agreements, whether written or oral.

10. FULL SETTLEMENT. This Agreement is a full and complete settlement of claims that were vigorously contested, denied and disputed as to validity and amount, and is executed in order to secure the Settling Parties' peace and to avoid further expense.

11. BINDING EFFECT. Subject to the conditions found in this Agreement, this Agreement shall be binding upon and inure to the benefit of each Settling Party as well as its respective officers and directors, their respective heirs, executors, administrators, trustors, trustees, beneficiaries, predecessors, successors, affiliated and related entities, officers, directors, principals, agents, employees, assigns, representatives, and all persons, firms, associations, and/or corporations connected with them, including without limitation, its sureties and/or attorneys, except as otherwise provided by this Agreement.

12. MODIFICATION OF THIS AGREEMENT. This Agreement may be amended or supplemented only by a writing that is signed by a duly authorized representative(s) of each Settling Party.

13. INDEPENDENT LEGAL ADVICE AND INVESTIGATION. The Settling Parties agree that this Agreement has been negotiated at arms length, with the assistance and advice of competent, independent legal counsel. In entering into this Agreement, the Settling Parties acknowledge that they have received independent legal advice from their own counsel and have relied on their own investigation and upon the advice of their own attorney(s) with respect to the advisability of making the settlement provided in this Agreement.

14. NO ORAL WAIVER. No term or provision of this Agreement will be considered waived by either Settling Party, and no breach excused by either Settling Party, unless such waiver or consent is in writing signed on behalf of the Settling Party against whom the waiver is asserted. No consent by either Settling Party to, or waiver of, a breach by either Settling Party, whether express or implied, will constitute a consent to, waiver of, or excuse of any other,

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different, or subsequent breach by either Settling Party.

15. NO ADMISSION OF LIABILITY. The payment by the AEI of the Settlement Proceeds described in Section 2 of this Agreement is for the compromise of disputed claims, and neither such payment nor its receipt shall be construed as an admission by AEI that it has any liability or obligation to OCWD or to any other person arising out of the Action or in connection with the release or threatened release of any hazardous substances at the Property or the Site.

16. COSTS AND ATTORNEYS' FEES. The Settling Parties acknowledge and agree that they are to bear their own costs, expenses, expert and consultant fees, and attorneys' fees arising out of the Matters Addressed herein; the Action; the negotiation, drafting, and execution of this Agreement; and all matters arising out of or connected therewith.

17. JOINT DRAFTING EFFORT. The Settling Parties acknowledge and agree that the drafting of this Agreement has been a joint effort by the Settling Parties and that this Agreement shall not be deemed prepared or drafted by any one of the Settling Parties. The terms of this Agreement shall be interpreted fairly and in accordance with their intent and not for or against any one of the Settling Parties. The Settling Parties further acknowledge and agree that each Settling Party possesses equal bargaining power with respect to this Agreement.

18. ADMISSIBILITY OF THIS AGREEMENT. This Agreement has been entered into in reliance upon the provisions of California Evidence Code Sections 1119 and 1152 and Rule 408 of the Federal Rules of Evidence and similar state law provisions in other states, which preclude the introduction of evidence regarding settlement negotiations or agreements.

19. NOTICES. All notices or other communications which any Settling Party desires or is required to give shall be given in writing and shall be deemed to have been given if hand-delivered, sent by telecopier/facsimile, receipt confirmed, or mailed by depositing in the United States mail, prepaid to the Settling Party at the address noted below or such other address as a Settling Party may designate in writing from time to time:

James S. Heiser  
American Electronics, Inc.  
23301 Wilmington Avenue  
Carson, CA 90745-6209

With a copy to:

Clifton J. McFarland, Esq.  
Downey Brand LLP  
555 Capitol Mall, 10th Floor  
Sacramento, CA 95814

Craig Miller  
Orange County Water District  
10500 Ellis Avenue  
Fountain Valley, CA 92708  
Telephone: (714) 378-3200  
Facsimile: (714) 378-3373

With a copy to  
Duane C. Miller, Esq.  
Miller, Axline & Sawyer  
1050 Fulton Ave., Suite 100  
Sacramento, CA 95825

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20. MUTUAL COOPERATION. Each Settling Party agrees that it shall cooperate with the other Settling Party, in good faith, in defending any claim(s) asserted by a third-party, not a Settling Party, against a Settling Party related to the Matters Addressed in this Agreement.

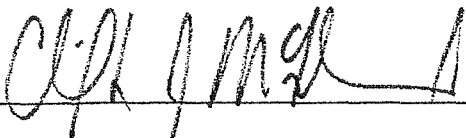
21. EFFECT OF PARTIAL INVALIDITY/SEVERABILITY. In the event that any provision of this Agreement is held to be invalid or unenforceable, such finding shall not invalidate any other term or provision of this Agreement and the remaining provisions of this Agreement shall continue in full force and effect.

22. SIGNATURE IN COUNTERPARTS. The Settling Parties agree that separate copies of this Agreement may be signed by each Settling Party and this Agreement will have the same force and effect as if the original had been signed by all the Settling Parties.

23. REPRESENTATIONS AND WARRANTIES. The Settling Parties represent and warrant:

- a. That each is fully authorized to enter into this Agreement;
- b. That the making and performance of this Agreement will not violate any provision of law or of any Settling Party's articles of incorporation, charter or by-laws; and
- c. That each Settling Party has read this Agreement in its entirety and knows the contents of this Agreement, that the terms of this Agreement are contractual and not merely recitals, and that it has signed this Agreement, having obtained the advice of legal counsel.

IN WITNESS WHEREOF, each of the Settling Parties hereto executed and has caused this Agreement to be executed by its duly authorized representatives.

Approved as to form:	
DATE: <u>7/3/07</u>	DATE: _____
DOWNEY BRAND LLP	NAME: _____
By: 	_____
CLIFTON J. MCFARLAND	AMERICAN ELECTRONICS, INC.
Attorneys for AMERICAN ELECTRONICS, INC.	

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22. SIGNATURE IN COUNTERPARTS. The Settling Parties agree that separate copies of this Agreement may be signed by each Settling Party and this Agreement will have the same force and effect as if the original had been signed by all the Settling Parties.

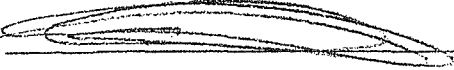
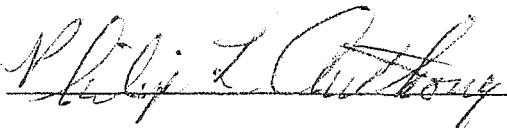

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- c. That each Settling Party has read this Agreement in its entirety and knows the contents of this Agreement, that the terms of this Agreement are contractual and not merely recitals, and that it has signed this Agreement, having obtained the advice of legal counsel.

IN WITNESS WHEREOF, each of the Settling Parties hereto executed and has caused this Agreement to be executed by its duly authorized representatives.

Approved as to form:	
DATE: _____	DATE: <u>July 3, 2007</u>
DOWNEY BRAND LLP	NAME: <u>James S. Heiser</u>
By: _____	<u>By JSH, Secretary</u>
CLIFTON J. MCFARLAND	AMERICAN ELECTRONICS, INC.
Attorneys for AMERICAN ELECTRONICS, INC.	

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Approved as to form:	
DATE: <u>7/3/07</u>	DATE: <u>7-18-07</u>
MILLER, AXLINE & SAWYER, PC	NAME: <u>Philip L. Anthony, President</u>
By: 	
DUANE C. MILLER	ORANGE COUNTY WATER DISTRICT
Attorneys for ORANGE COUNTY WATER DISTRICT	
	Michael P. Wehner, Acting General Manager

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**Exhibit "A"**

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